July 1991 Vol. 46 No. 562

Business in Nebraska

In This Issue

Economic Development 1
U.S. Saving 3
Wage Gap 4
Lodging 6
Household Changes 7
Review and Outlook 8
U.S. Mail in 1990 12
County of the Month 12

Prepared by the Bureau of Business Research, 200 College of Business Administration, University of Nebraska-Lincoln, Lincoln, NE 68588-0406, 402/472-2334

Economic Development or Economic Warfare?

F. Charles Lamphear
UNL Bureau of Business Research

States and even some communities are engaging in economic warfare in the name of economic development. Various locales are offering lush, up-front incentives in an effort to attract businesses. Up-front incentives mean that businesses do not have to wait until they have invested money and created jobs to receive benefits.

The economic development war is a bidding war, where players (e.g., states and communities) offer large tax breaks and subsidies to businesses in order to lure them to their areas.

For example, the State of Colorado in collaboration with the City of Denver is putting together a incentive package worth over $250 million to entice United Airlines to locate its maintenance base in the Denver area. Denver's willingness to offer such a large incentive likely is boosted by a recent loss in a bidding war with Houston for Continental Airlines' maintenance base.

The McDonnell Douglas Corporation successfully has orchestrated a public bidding war involving Kansas City, Tulsa, Salt Lake City, Shreveport, and possibly others. The estimated $1 billion plant will employ at least 5,000 highly paid workers to build the proposed MD-12X commercial aircraft. On August 6 Kansas City residents will vote on a proposed property tax increase to pay for about $90 million in improvements to a 600 acre tract near Kansas City International Airport to accommodate the needs of the MD-12X plant.

Insul-8 Corporation of San Carlos, California recently announced its decision to locate a plant in Iowa after considering Fremont, Nebraska. Iowa simply outbid Nebraska with $900,000 in up-front money.

Other examples are readily available, but the thrust is that states and communities are paying bounties to businesses to locate in their areas.

The Nebraska Department of Economic Development does not make direct payments of public funds to private businesses. The passage of LB840 in the last legislative session, however, will allow local jurisdictions to make direct payments of public funds to businesses if approved by a vote of the people. LB775, the 1987 Employment and Investment Growth Act, and the small business companion bill, LB1124, the 1987 Employment Expansion and Incentive Act, as amended by LB270 and LB335, provide tax benefits *after* a business has announced investment of money and the creation of jobs.

State Economic Scoreboard

Change from same month one year ago
See Review and Outlook for more details

	State	Metro+	Nonmetro
Motor Vehicle Sales (March) Constant $	↓ -7.5%	↓ -6.2%	↓ -8.6%
Nonmotor Vehicle Sales (March) Constant $	↑ 2.1%	↓ -7.9%	↑ 12.1%
Building Activity (March) Constant $	↓ -10.3%	↓ -22.5%	↑ 10.7%
Employment (May)	↑ 2.8%	↑ 3.8%	↑ 1.8%
Unemployment Rate* (May)	↑ 2.6%	↑ 2.5%	↑ 2.7%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago

Three principal factors are driving states and communities to engage in bidding wars for business. These factors are slow national growth, outmigration, and growth in footloose industries. A footloose industry is locationally independent of any particular area.

Bidding wars intensify when the nation's growth rate slows. High levels of national economic growth increase the chances for all areas to share in growth. Low levels of national growth increase the risk that some areas may not grow or may decline. The significant slowdown in the nation's economic growth since the early 1980s has prompted many states and communities to intensify their efforts to stimulate growth.

Bidding wars also can occur as a result of the problem of human relocation. States and communities worry about having enough jobs available to absorb at least their natural increase in population. For the nation, natural increases in population are not a problem over and above the problem of maintaining full employment. The pattern of national growth may force workers to change jobs, industries, or even location, but it does not force them to leave the United States.

Finally, with footloose industry growth on the rise, more businesses are seeing the advantage of site shopping for incentive packages. The basic characteristic of a footloose business is independence of location. A footloose industry is not tied to any particular locale for material or labor inputs. The industry essentially can buy anywhere, sell anywhere, and move anywhere. Critics argue that footloose businesses have the capability to hold states ransom by publicly threatening to leave unless certain favorable economic conditions are granted. A threat to move its headquarters from Illinois, for example, won Sears, Roebuck concessions worth more than $200 million. All a footloose business needs is a viable alternative site that can be used as a bargaining chip.

The financial package offered to a prospective business often is determined by political factors rather than by socioeconomic benefits. The negotiating period often is too short to undertake an analysis of potential direct and indirect socioeconomic impacts.

Bidding wars in the name of economic development are dangerously out of control—at present, there appears to be no practical way to slow such wars. The bidding wars situation may get worse. Some have suggested that governors negotiate truces to bidding wars. This is as difficult as asking universities with successful athletic programs to limit recruiting to their respective states.

Long-term economic development goals should not be sacrificed completely for the immediate gains that bidding wars can bring. For example, the importance of infrastructure for long-term economic development long has been recognized.

The term *infrastructure* refers to transportation networks, sewage facilities, utilities, education, research facilities, etc. A quality infrastructure is essential for maintaining a strong competitive position. But the quality of a state's or a community's infrastructure can be jeopardized in the process of funding bidding wars.

At least two issues should be considered in formulating an economic development policy for a state and/or a community. The first issue is a workable definition of economic development. Because economic development suggests different things to different individuals, a standard definition is difficult to formulate.

The notion of what constitutes economic development is a state of mind. The definition can involve any formula that considers jobs, income, equity, health, wealth, competition, environment, etc. Economic development generally refers to the qualitative economic changes that accompany economic growth, such as improved prospects for further economic growth, preservation of desired regional and community socioeconomic characteristics, contribution to overall national economic well-being, and conservation of natural resources and the environment.

Some of the economic fruits of today's bidding wars probably would not fit this notion of economic development. But even here we have a problem. If one state chooses to define economic development differently from another, it could find itself playing a totally different game from neighbor states. Thus, states could lose in the competitive economic development game even if they are right about their notion of economic development.

The second issue to be considered in formulating policy is the philosophy behind economic development. One philosophical concern is the relationship between population mobility and economic efficiency. Populations are distributed over an economic landscape in certain rhythms and patterns that are neither arbitrary nor the workings of chance. They result rather from the interdependencies of a number of economic forces, such as the structure of demand, the level of technology, and the social and political organizations of the economy. If economic efficiency is a primary economic development goal, then it may be necessary to formulate policies that encourage migration and the evolution of new settlement patterns. Old settlement patterns of communities, towns, and cities in juxtaposition to each other give rise to new settlement patterns with possibly different functions and fewer (more) communities, towns, and/or cities.

Another philosophical consideration of economic development is economic well-being. Specifically, the issue deals with the extent to which an individual's well-being depends on the economic well-being of his or her region or community independent of his or her own situation.

Why Does Saving Matter?

Wallace C. Peterson, Professor of Economics, Emeritus
University of Nebraska-Lincoln

Last month's *Business in Nebraska* examined the question of whether America was saving enough. The evidence showed a decline in American saving during the 1980s, a decline partially offset by foreign money flowing into the nation.

This month we turn to other equally important questions: Why does the saving rate matter? What difference does it make to you and other citizens? What can we do about the saving rate?

Saving is important for two fundamental reasons. First, saving represents the dollar value of resources available for investment by the society in real capital assets—structures and equipment. All societies progress by investing a part of their physical production in real capital in order to produce more in the future.

Second, investment in new physical capital is a major way to increase labor productivity. Labor productivity measures the efficiency with which we use labor in production. It is the key to an improved material standard of life, now and in the future.

Economists largely agree that there is a close correlation between both saving and investment and investment and productivity. If we want to understand the significance of the decline in saving, we have to examine what has happened to investment and productivity.

To understand the significance of the 1980s drop in saving, we need to see what happened earlier in the post-World War II period. Table 1 compares investment rates and productivity growth in the 1980s with the prior three decades, 1950-1979.

Column (1) tells us that the share of investment spending in GNP did not change much during the 1980s. The stability is due to gross investment, including both private housing and business spending for new capital. In the 1980s, housing investment grew relative to business investment.

The other columns tell a different story. The average rate of investment in new plant and equipment by business dropped 1.2 percentage points in the 1980s compared to the prior three decades. This drop is a 33 percent relative decline.

With respect to business buying of new equipment—a primary source for productivity gains—the rate fell from 2.0 percent to 1.4 percent of the Net National Product, a 40 percent relative decline.

The consequences of this trend appear in column (4), which shows a 50 percent decline in the annual average rate of growth of productivity in the 1980s compared to 1950 through 1979.

Do these decreases matter? More than most of us think. If worker productivity is growing at an annual average rate of 2.0 percent a year, then real output, not counting any increase in the labor force, will double in 35 years. It will take 70 years for real output to double if productivity grows only 1 percent a year. The fall in net business investment in structure and equipment during the 1980s provides a partial explanation for the deterioration in productivity growth in the economy. It is not the full story because the figures in Table 1 pertain only to the private sector of the economy.

David Aschauer, an economist with the Federal Reserve Bank of Chicago, supplies another piece of the productivity puzzle. His research shows a strong correlation between the decline in public investment in the nation's infrastructure and the decline in productivity. Infrastructure is a fancy word for highways, airports, electrical and gas works, schools, hospitals, water and sewer systems, and other basic facilities.

The nonmilitary public capital stock in the United States totals 45 percent of the stock of private capital. What Aschauer found is that the rate of growth in public capital dropped from an annual average of 4.1 percent between 1948 and 1969 to an annual average of 1.6 percent from 1970 through 1987.

The plus side of Aschauer's findings is that this is something that we, as citizens, can control. Most investment in public capital occurs at the state and local level. Thus, we can do something positive about decreasing productivity—if we really want to do something. For example, we can approve or reject bond issues at election time.

Table 1
Gross and Net Investment and Productivity
1950-1989
(Percent)

Period	(1) Gross Investment[a]	(2) Fixed Business Investment[b] Total	(3) Equipment	(4) Productivity Growth[c]
1950-1979	16.0%	3.6%	2.0%	2.0%
1980-1989	15.5	2.4	1.4	1.0

[a]Gross investment in housing, business structures, and equipment adjusted for changes in business inventories as a percent of the Gross National Product (GNP)

[b]Fixed investment in business structures and equipment net of depreciation as a percent of the Net National Product (NNP)

[c]Annual average rate of growth in output per hour for persons in the nonfarm business sectors

Source: *Economic Report of the President, 1991*

The Growing Earnings Gap

Lisa Valladao
UNL Bureau of Business Research

Pay gaps between U.S. workers, particularly men, have been rising steadily since at least 1958. Pay gaps—the differences in pay between workers at various earnings levels—widened at an unusually rapid pace for both men and women across several demographic, industrial, and occupational categories in the 1980s, however, according to a report in the *Monthly Labor Review* published by the U.S. Department of Labor.

Pay gaps can be gauged best by examining the annual earnings of full-time workers employed year-round because such data are affected less by variations in part-time and seasonal earnings.

Table 1
Distribution of Earnings for Full-Time, Year-Round Workers by Sex, Race, and Hispanic Origin 1978 and 1988

	Percent Share of Aggregate Earnings				
	Top Fifth	Second Fifth	Third Fifth	Fourth Fifth	Bottom Fifth
Black Men					
1978	34.0	24.7	19.3	13.8	8.2
1988	39.3	23.9	17.3	12.5	7.1
Black Women					
1978	33.1	23.7	18.8	14.8	9.5
1988	35.5	24.2	18.6	13.5	8.3
White Men					
1978	37.4	23.2	18.3	13.6	7.6
1988	40.2	23.2	17.5	12.5	6.7
White Women					
1978	33.3	23.5	18.9	14.9	9.4
1988	37.4	23.6	17.9	13.4	7.8
Hispanic Men					
1978	35.5	23.7	18.2	13.8	8.8
1988	40.9	23.4	16.7	12.0	7.0
Hispanic Women					
1978	32.9	23.7	18.8	14.9	9.7
1988	38.0	23.6	17.5	13.0	8.0

The wage and salary categories in Table 1 were created by ordering workers from the lowest earnings level to the highest earnings level. Workers then were grouped in blocks (fifths) containing 20 percent of the total workers. Income ranges within each block changed from 1978 to 1988 in line with the rate of wage inflation.

Demographic Categories

From 1978 to 1988 the mean earnings of black, white, and Hispanic men and women working at least 35 hours per week, 50 or more weeks per year, increased substantially. When each category of earner is divided into five earnings levels (Table 1), however, the earnings share of the top fifth—the highest earnings level—increased in each category. The earnings share of the lowest three-fifths, on the other hand, decreased in each category. The share of the second fifth—the second highest earnings level—remained nearly constant.

To illustrate this phenomenon in terms of actual dollars, in 1978 an average male worker in the bottom fifth earned $9,847. His average counterpart in the top fifth earned $23,294. The percentage difference or earnings gap between the two was 137 percent. By 1988 the gap had widened to 172 percent. The worker in the bottom fifth earned $15,548, whereas his counterpart in the top fifth earned $42,246. The average earnings of the worker in the bottom fifth increased 58 percent, while the average earnings of the worker in the top fifth increased 81 percent over the same period.

Although the actual earnings of the worker in the bottom fifth increased from 1978 to 1988, his share of the total distribution of earnings (his piece of the percentage pie) decreased. The worker in the top fifth received pay increases during the period and acquired a *larger* share of the total distribution of earnings (or a bigger piece of the percentage pie).

Industrial Categories

The earnings gaps for men increased from 1978 to 1987 in every industry except agriculture. The most substantial growth in the earnings gaps among male workers occurred in manufacturing and retail trade. Table 2 presents earnings distributions in selected categories. Categories showing significant increases in earnings gaps for women and men are highlighted.

Earnings gaps among women grew in fewer industrial categories from 1978 to 1987, but the overall widening is unmistakable. Manufacturing and professional and related services showed the largest increases in earnings gaps among female workers.

Occupational Categories

Overall, the earnings share of blue collar occupations increasingly lost ground to the earnings share of white collar occupations from 1980 to 1989.

Within specific occupations the trend toward increasing earnings gaps also is evident. Earnings gaps increased at least slightly in every occupational category for both men and women from 1982 to 1988. The greatest gap increases for both sexes occurred in the technical, sales, and administrative support occupational category.

Disproportionate increases in male earnings in the 1980s were registered by salaried administrators and

private industry officials within the managerial and professional occupational category. This group of earners, which includes financial managers, personnel directors, and advertising executives, accounted for approximately one-third of all managerial and professional workers. Not only did the group receive salary increases that were greater in percentage terms than increases awarded to others within the managerial and professional field, but the number of workers in the group increased nearly 950,000 between 1982 and 1987.

Significant increases in female earnings gaps were found in sales occupations. Here again, the earnings of workers in the top fifth diverged substantially from their counterparts at lower earnings levels.

In general, individuals at the higher levels of pay and responsibility received higher percentage pay increases than did those at lower levels within the same occupation. Nowhere is this more evident than in the service occupations. Although service occupations typically pay less than do production and managerial and professional occupations, service workers at the top fifth earnings level gained as much or even more ground than did workers at the top fifth earnings level in both production occupations and managerial and professional occupations.

A recent survey showed that the 1989 average compensation of chief executive officers of major corporations was $1,856,697—a figure three times as high as the 1980 average compensation for CEOs. The average increase for all male full-time workers during roughly the same period was approximately 66 percent. The startling increase in CEO compensation may have had a trickle-down effect on the compensation of other high level corporate workers.

Possible reasons for the rapidly growing earnings gap in the 1980s vary. Some analysts see earnings gaps resulting from the movement from an industrial economy to a service-oriented economy. Others see earnings gaps resulting from the divergence in the returns to education (that is, the value of different levels of educational achievement). The widening of earnings gaps may indicate a divergence in the quality of available jobs, gaps in the earnings potentials of individuals, or a combination of the two.

Author Robert Reich suggests in a recently published book entitled *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* that the class structure of the workforce has changed. The change is the result of the changing nature of products; high volume, standardized products have become secondary in importance to customized products. Those individuals whom Reich calls "symbolic analysts" who possess the ability to work creatively with their minds in developing these customized products increasingly are coming to own the largest share of resources, whereas those individuals expending their efforts producing traditional standardized goods increasingly are losing shares of resources.

Whatever the causes, the widening of the earnings gap is unmistakable. Whether the trend will continue is unclear. The growing earnings gap cannot be viewed as an isolated incident, however, but must be viewed as an indicator of America's changing economic and social climate.

Table 2
Distribution of Earnings for
Women and Men in Selected Industries
1978 and 1987

	Percent Share of Aggregate Earnings				
	Top Fifth	Second Fifth	Third Fifth	Fourth Fifth	Bottom Fifth
Manufacturing					
Women					
1978	31.6	23.2	18.9	15.4	10.9
1987	35.6	23.5	17.9	13.9	9.1
Men					
1978	33.9	23.3	19.0	14.7	9.1
1987	36.7	23.4	18.2	13.7	8.0
Personal Services					
Women					
1978	39.1	25.0	18.4	12.7	4.8
1987	39.8	24.1	17.4	12.7	6.0
Men					
1978	40.6	23.1	17.1	12.5	6.6
1987	41.8	23.6	17.0	11.7	5.9
Retail Trade					
Women					
1978	34.1	23.8	18.5	14.9	8.7
1987	38.0	23.8	17.5	13.3	7.4
Men					
1978	38.6	23.5	17.7	13.1	7.1
1987	41.3	23.6	17.1	11.7	6.2
Professional and Related Services					
Women					
1978	32.9	23.4	19.0	14.9	9.9
1987	34.9	23.8	18.5	14.2	8.6
Men					
1978	42.7	21.7	16.3	12.0	7.3
1987	43.7	22.6	16.3	11.5	6.0
Agriculture					
Women					
1978	49.6	25.7	15.5	7.6	1.7
1987	45.2	24.9	18.5	9.6	1.8
Men					
1978	47.6	24.5	16.1	9.5	2.3
1987	47.2	23.7	15.5	10.3	3.3

Nebraska's Lodging Industry

John S. Austin
UNL Bureau of Business Research

While Nebraska has slightly more lodging places than one would expect based on its population relative to the total U.S., these places tend to be smaller, have lower receipts per guestroom, and pay lower wages than the national average. In contrast, Nebraska lodging places have more guestrooms per employee and tend to garner higher proportions of their total receipts from guestroom rents and from meals than the national averages. These and other fascinating facts can be gleaned from the *Census of the Service Industries, 1987*, recently released by the U.S. Bureau of the Census.

Table 1 presents data for the U.S. and Nebraska lodging industries with some analytical ratios. Whether we look at the total lodging industry or just the hotel/motel portion, the same picture emerges. Nebraska lodging places have lower receipts per establishment and fewer employees per establishment. The average annual payroll is lower, as are receipts per employee.

Because Nebraska has low population density, it should come as no surprise that Nebraska hotels and motels tend to be smaller than the national average. Nebraska hotels and motels average 50 rooms, while the corresponding national average is 71 rooms. Nebraska's rent per guestroom and total receipts per guestroom are 55 percent and 65 percent of their respective national averages. The average Nebraska guestroom generated $6,910 in guestroom rents in 1987.

Further, Nebraska is underrepresented in the bigger hotels and motels of 25 rooms or more. Less than one-third of Nebraska establishments fall into the larger size class. The national average is over half. Even those Nebraska establishments in the larger size class are relatively small, averaging just under 100 units, while the national average of the larger complexes is 143 units.

Nebraska's hotel and motel operations are more focused on the room rental aspects of the business than are their national counterparts. Over 70 percent of Nebraska's hotel and motel receipts come from room rentals versus about 60 percent for the nation. Nebraska also has a slightly higher proportion of receipts from food business. The residual category of *other revenues* covers a host of activities including telephone receipts and the sale of merchandise. Also included in the residual category are items such as gambling receipts in Nevada and New Jersey.

The census of services is taken once every five years. While the data are somewhat dated by press time, the census is comprehensive. The dollar figures in particular are dated, but the relative size of Nebraska receipts to U.S. receipts is likely to be relatively stable.

Table 1
Lodging Receipts and Payrolls
1987

	Establishments #	Receipts per Establishment $	Employees per Establishment #	Payroll per Employee $	Receipts per Employee $
Total Lodging					
U.S.	46,793	1,108,387	30.1	10,244	36,763
Nebraska	373	465,547	18.1	6,565	25,703
Nebraska as a Percent of U.S.	0.8%	42.0	60.1	64.1	69.9
Hotel/Motel Only					
U.S.	40,424	1,246,096	34.1	10,241	36,495
Nebraska	347	491,138	19.3	6,516	25,459
Nebraska as a Percent of U.S.	0.9%	39.4	56.6	63.6	69.8

All tables based on data from U.S. Bureau of the Census, *1987 Census of the Service Industry, Hotels, Motels, and Other Lodging Places*. Employees include full-time and part-time workers

Changes in Nebraska Households During the '80s

Merlin W. Erickson
UNL Bureau of Business Research

Nebraska households increased 29,748 (5.2 percent) units from 1980 to 1990, according to the U.S. Bureau of Census. During this period, nearly 97 percent of household growth occurred in the nonfamily household category. The Bureau of the Census defines a *nonfamily household* as a household where the householder lives alone or with nonrelatives only. A *family household* includes a householder that lives with one or more relatives. All households have one person designated as the householder.

The number of family households in Nebraska showed a meager increase of 924 units (0.2 percent) during the past decade. Change in the mix of family households, however, was more pronounced. The number of married couple families decreased 13,658 (-3.7 percent). That decrease was offset by increases in households where the householder had no spouse present. Where the householder was male without a spouse present, the number of households increased 35.5 percent during the 1980s. Meanwhile, housing units occupied by female householders without a spouse present increased 27.7 percent during the decade.

By 1990, there were nearly 187,000 nonfamily households in Nebraska, an increase of about 28,890 (18.2 percent) during the decade. Further, over 21,000 of the additional nonfamily households were inhabited by householders living alone, bringing the state total to more than 159,000 in 1990. This is about 10 percent of the total population. Of the nonfamily householders living alone, nearly 70,000, or 44 percent of the total, were at least 65 years of age, an increase of nearly 7,000 (11 percent) during the 1980s.

All of the above 1990 data were obtained from preliminary *Census of Population* profiles and are subject to revision. Even if the numbers are revised, however, the general trends and changes occurring during the decade will remain. Similar stories likely will be written about other geographic areas.

Table 1
Changes in Nebraska Households
1980-1990

	1980	1990	Change 1980-1990	
	#	#	#	%
Households, Total	572,615	602,363	29,748	5.2
Family Households (Families)	414,503	415,427	924	0.2
Married Couple Families	364,172	350,514	-13,658	-3.7
Other, Male Householder	10,880	14,738	3,858	35.5
Other, Female Householder	39,451	50,175	10,724	27.2
Nonfamily Households	158,112	186,936	28,824	18.2
Householder Living Alone	138,560	159,671	21,111	15.2
Householder 65 Years & Over	62,670	69,640	6,970	11.1
Persons Living in Households	1,521,332	1,530,832	9,500	0.6

Everything You Always Wanted to Know About Nebraska ...

Did you realize that Nebraska's state rock is the prairie agate? That the honeybee is our state insect? That three Nebraskans have won Nobel prizes? That the nation's first 911 emergency system was developed in Lincoln? That Charles Lindbergh learned to fly in our capital city?

The *Nebraska Blue Book 1990-91* contains these interesting tidbits plus a wealth of other information about the Cornhusker State. The focus of this publication is government in the state at the federal, state, county, and municipal levels. Other sections of the book highlight Nebraska's education and information resources and political parties and elections.

For a copy of the *Nebraska Blue Book 1990-91*, contact the Clerk of the Nebraska Legislature's Office, Room 2018, State Capitol, P.O. Box 94604, Lincoln, NE 68509-4604, phone 402/471-2788 or 401/471-2220.

Review and Outlook

John S. Austin, Research Associate
UNL Bureau of Business Research

National Outlook

The Shoe is Dropping

Last month's Review & Outlook section mentioned that we were waiting for the shoe to drop; specifically, we were waiting for a turnaround in automobile sales. Now we can report that the shoe is dropping.

Although there have been many signs that the end of the recession is forthcoming, perhaps the most promising sign is the recovery in auto sales. Sales started to improve in late May. For the last 50 days at this writing, auto sales have been improving. Thus, auto sales appear to have bottomed in late April or early May. The report for the last ten day sales of June brought near euphoria to the auto industry. Domestic sales for the period were 10.1 percent below a year ago, but they set a new high for 1991 at 7.4 million units at annual rates. Domestic sales totalled 6.7 million units in June, following May and April totals of 6.1 million units and 5.5 million units. June imports sold at a 2.2 million rate, the same as last year, for a respectable June total of 8.9 million units.

Many have commented that this particular recession has been highly concentrated and aimed largely at the auto and housing industries. Housing starts have stopped dropping. There has not been much evidence of a recovery, however, with the May figure advancing only 0.1 percent. Housing starts have barely risen from their trough level.

Table I
Employment in Nebraska

	Revised April 1991	Preliminary May 1991	May % Change vs. Year Ago
Place of Work			
Nonfarm	760,082	768,808	4.4
Manufacturing	100,749	100,924	4.1
Durables	49,465	49,426	1.8
Nondurables	51,284	51,498	6.4
Mining	1,878	1,921	12.1
Construction	30.027	32,022	16.2
TCU*	45,721	45,994	.4
Trade	190,693	192,160	2.7
Wholesale	51,941	52,269	-2.3
Retail	138,752	139,891	4.7
FIRE**	49,505	49,674	2.9
Services	191,027	192,306	8.1
Government	150,482	153,807	2.0
Place of Residence			
Civilian Labor Force	862,068	875,161	3.7
Unemployment Rate	2.4	2.6	

* Transportation, Communication, and Utilities
** Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Supporting the good news in auto sales is an increase in personal income. May personal income rose 0.5 percent above April levels. Removing the effects of inflation, personal income rose 0.3 percent. The gain in personal income was outpaced by an increase in consumer spending of 1.1 percent. This increase followed an April increase of 0.4 percent. Economists who argue that the second quarter will record an increase in real GNP base their arguments largely on the growth in consumer spending.

Saying that autos and housing starts have shown signs of recovery is not to say that the entire economy has turned the corner. Auto sales and housing starts are leading economic indicators. We could look at some of the coincident indicators to see if we can judge whether the total economy has turned.

The Industrial Production Index, a coincident indicator, has stopped dropping. In April the index rose 0.3 percent. It rose again 0.5 percent in May. Up to this point, industrial production has been restrained by low output levels in the auto industry. In the second quarter auto production was 16.1 percent below its year-ago figures. Current third quarter auto industry plans call for production 6.2 percent below year-ago levels.

Retail sales have started to improve. Retail sales increased 1.0 percent in May and are nearly back to their November peak levels. These figures are in current dollar terms and are not adjusted for inflation. Constant dollar retail sales still are below their previous peak.

Employment advanced marginally in June. As a whole, second quarter employment levels were above those of the first quarter. Jobless claims have begun to slow, and the unemployment index has risen only marginally to 7.0 percent.

Other Economic News

Machine tool orders are at their lowest levels since 1987. The May figures show that, once again, the auto industry is a prime reason for low levels of activity. Machine tool orders tend to lag an economic recovery.

Durable goods orders have been up in both April and May, but are well below their year-ago levels. The low for the durable goods series appears to have been in March. Durable goods orders are leading economic indicators.

There is continuing concern that consumer confidence has not recovered from its spring malaise. The Conference Board Index was 74.2 in May, down from 79.4 in April. The post-Gulf War euphoria apparently has dissipated. Consumers need a lot more good economic news before consumer confidence recovers. The relapse in consumer confidence is in direct opposition to May's consumer spending report. Consumers spent 1.1 percent more in May than they spent in April. Thus, their expenditure increase outpaced the income gain, a condition that cannot be maintained.

Inflation rates have remained moderate. In May, the Producer Price Index advanced 0.6 percent, while the Consumer Price Index advanced 0.3 percent. Most of the reductions in energy costs have worked their way through the commonly available price indices at this time. West Texas intermediate crude now stands in the $20-per-barrel area.

Jobless claims have been falling for three weeks in a row through mid-June. The highest week was that of March 23, when jobless claims stood at 543,000. For the week ending June 15 jobless claims were down to 431,000.

The final figure for first quarter GNP is -2.8 percent. This final figure will not be revised until the July revision is published.

A Divided House

Economists remain divided over whether the economy has turned the corner, although the division has narrowed in the last month. Now there appears to be a split between those who say the recovery has started and those who say the recovery will begin this summer. Those who believe in a long, delayed recovery have been silenced.

At times like this, watching the economy is like watching an ocean liner turn. The ship doesn't appear to be moving, but over a span of time we start to notice that it is changing direction as it passes some reference points. Frankly, the argument over whether the economy has turned the corner is of little real interest. The debate provides some sport for economists and the media, but in the long sweep of history it will make little difference whether the recession trough was reached in May, June, or July.

Weak Recovery

Although there is a lack of consensus over the precise timing of our recovery, there appears to be more agreement that the forthcoming recovery will be a slow one. Most central to the slow recovery thesis is that the recession was not severe. Instead of a typical boom-bust recession, we had a pop-fizzle one. The initial recovery steps will be small, simply because we will start from a place not all that low. Other reasons given for the expected slow recovery vary, but the central ones are as follows.

The Federal Reserve will continue to favor a gradualist monetary policy and, thus, will not be seen as an engine of recovery. It already widely is believed that the Federal Reserve is content to leave short-term interest rates at their current levels and does not intend to stimulate the economy further by an additional lowering of rates.

Indebtedness from the 1980s is still with us and has not been shaken by the recession time-out. This carryover means that consumers and businesspersons will be using more of their income for debt repayment rather than for expansion.

Table II
Price Indices

	May 1991	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	135.6	5.0	5.1
Commodities	126.8	4.4	4.3
Services	145.0	5.4	5.8
Producer Price Index (1982 = 100)			
Finished Goods	121.7	3.4	3.4
Intermediate Materials	114.1	1.1	1.8
Crude Materials	102.2	-1.9	-0.7
Ag Index of Prices Received (1977 = 100)			
Nebraska	158	-6.5	-3.5
Crops	116	-14.1	-11.4
Livestock	185	-3.1	0.3
United States	152	-1.3	-2.6
Crops	137	2.2	-3.2
Livestock	166	-4.0	-2.6

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics, Nebraska Department of Agriculture

The government sector is unlikely to be a stimulus. The federal government is under obligation to honor last year's budget compromise resolution. State and local governments are not in an expansion mode, but are considering and implementing spending cuts.

The net export activity of the U.S. may slow somewhat in coming years. Many have argued that exports had helped to hold the economy up longer than expected and, thus, delayed the start of the recession last year. Today's climate is not so favorable to exports. The dollar has gotten stronger, and export customers, particularly Western Europe, are showing some signs of weakness.

We can conclude from the above that this time around, the recovery will be consumer led. The data on spending, particularly recent auto sales data, indicate that the consumer may be willing to shoulder the load.

Nebraska Outlook

The USDA's outlook for agriculture shows that the winter wheat harvest will return production of winter wheat to 1989 levels. Nebraska is a relatively small player in the winter wheat market, with only 5 percent of total winter wheat; nevertheless, the winter wheat market is important to some Nebraska farmers. It is anticipated that end-of-the-year stocks will be reduced by lowered production levels and, as a result, prices will rise above last year while remaining below 1989 levels.

Corn is expected to show a moderate increase of about 4 percent in total supply, according to USDA.

Table III
City Business Indicators
March 1991 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	2.6	-10.3
Alliance	-0.9	76.5
Beatrice	-0.3	-9.5
Bellevue	5.6	-36.3
Blair	5.6	21.2
Broken Bow	1.4	232.3
Chadron	-1.8	577.9
Columbus	0.7	-29.7
Fairbury	3.3	-34.7
Falls City	0.2	52.1
Fremont	-3.1	-41.4
Grand Island	1.2	40.1
Hastings	-0.5	-24.0
Holdrege	4.6	12.9
Kearney	1.5	52.3
Lexington	-1.9	10.2
Lincoln	3.8	-11.4
McCook	5.7	-7.7
Nebraska City	-0.3	-40.3
Norfolk	-0.8	97.3
North Platte	-1.7	115.3
Ogallala	-2.7	55.1
Omaha	5.6	-27.6
Scottsbluff/Gering	3.3	-67.8
Seward	-0.6	-11.9
Sidney	3.3	833.7
South Sioux City	2.6	-34.3
York	-4.2	33.0

(1) As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2) Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

About half of this increase should go to inventory, with prices running between $1.95 and $2.35 per bushel.

As of June 1, cattle on feed are well ahead of last year. Nebraska's cattle on feed numbers change leadership position with Texas. Currently, the number of Nebraska cattle on feed at 2,160,000 is just slightly below the Texas holdings. The Nebraska figure is about one-fourth of the seven states reporting cattle-on-feed numbers. Thus, Nebraska's role as a cattle-feeding state has become even clearer.

The good news for Nebraska's cattle producers contrasts to the outlook for the nation's agricultural income as a whole. USDA recently revised its outlook for farm income $2 billion downward, leaving their estimate for 1991 farm income in the range of $40 billion to $45 billion. That range contrasts to a 1990 figure of $47 billion. The cattle industry remains strong. Grain producers are characterized as being in a break-even situation, with high production and low prices. Agriculture credit has tightened as the likelihood of more farm failures later this year increases.

The torrid pace of Nebraska's job expansion slowed only slightly in May. Nevertheless, the total number of jobs advanced 4.4 percent versus May of last year. The biggest gainer was construction, advancing 16.2 percent. The second largest gain was services at 8.1 percent. Of all major categories, only wholesale trade showed weakness, falling 2.3 percent.

Nebraska's May unemployment rate showed a marginal advance to 2.6 percent. Again, that figure is well under half the U.S. rate of unemployment.

Retail sales has been the one area consistently showing the effect of the recession upon Nebraska's economy. Nebraska's retail sales reports continue in their doldrums. These reports lag considerably. We now are reporting data for March. Total net taxable retail sales fell 3.2 percent in March below its year-ago levels. On a year-to-date basis, retail sales are 0.8 percent below year ago. Once again, we are waiting for a recovery in consumer confidence to lead us out of our retail sales rut.

Discouraged Workers

Lisa Valladao
UNL Bureau of Business Research

In the first quarter of 1991, more than 5.8 million individuals wanted jobs but did not actively seek jobs. 3.7 million were women; 2.1 million were men. Reasons given for not seeking employment varied, but over 1 million of those individuals felt such efforts would be in vain. The number of discouraged female job seekers rose 142,000 from the first quarter of 1990, while the number of their male counterparts rose 72,000.

Some of the increase in the number of discouraged workers is due to the effect of recession on expectations of job opportunities. As a recession takes hold, expectations are lowered. The number of individuals seeking employment decreases in the face of these lowered expectations.

Of the women who desired but did not seek employment in the first quarter, 611,000 (17 percent) felt that they simply could not get a job. Home responsibilities and school attendance were the other reasons given by women for not seeking employment.

Of the men who desired but did not seek employment during the same period, 428,000 (20 percent) felt that employment-seeking efforts were futile. School attendance and illness were the other main reasons given by men for not seeking employment.

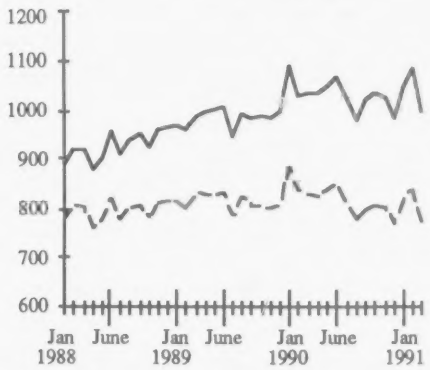
Individuals who are out of work but actively seeking employment are considered unemployed. Unemployed individuals are counted as part of the labor force. Individuals who are not employed and not actively seeking employment are not counted among the unemployed and, thus, are not part of the labor force. The discouraged workers referred to here belong to the latter category of individuals not in the labor force.

Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) March 1991 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) March 1991 (000s)	Region Sales (2) % Change vs. Year Ago	Region Sales (2) YTD % Change vs. Year Ago
NEBRASKA	$897,361	-3.0	$1,021,432	-3.2	-0.8
1 Omaha	299,044	-4.6	371,402	-3.9	-3.2
Bellevue	12,919	3.1	*	*	*
Blair	4,754	-2.2	*	*	*
2 Lincoln	119,032	-1.9	136,714	-3.0	0.1
3 South Sioux City	5,551	-11.5	7,498	-11.5	-7.1
4 Nebraska City	4,043	9.2	19,017	-0.7	1.0
6 Fremont	16,654	1.4	31,020	1.0	2.8
West Point	3,193	5.1	*	*	*
7 Falls City	2,595	10.2	9,729	-0.7	3.3
8 Seward	4,362	-13.3	15,167	-5.7	-2.5
9 York	6,804	0.8	16,212	1.7	0.9
10 Columbus	15,139	-4.4	27,976	-4.7	-0.4
11 Norfolk	18,814	-3.1	34,521	-4.0	0.5
Wayne	3,333	19.8	*	*	*
12 Grand Island	33,921	-5.2	47,835	-6.5	-3.3
13 Hastings	16,015	1.2	26,705	-2.0	0.7
14 Beatrice	8,255	-3.3	18,712	-5.3	-2.1
Fairbury	2,718	-2.1	*	*	*
15 Kearney	19,721	-1.7	27,768	-2.8	4.9
16 Lexington	6,103	6.0	16,763	-2.3	0.8
17 Holdrege	5,141	7.9	8,894	-1.5	3.7
18 North Platte	16,084	7.1	20,689	6.1	6.2
19 Ogallala	5,099	-11.0	10,521	-10.9	-8.2
20 McCook	7,828	-4.4	11,324	-4.2	2.8
21 Sidney	3,529	-5.2	7,610	-3.5	2.2
Kimball	1,688	-5.1	*	*	*
22 Scottsbluff/Gering	18,312	-2.7	25,793	-2.9	3.8
23 Alliance	5,103	-0.4	13,384	1.2	2.5
Chadron	2,690	2.2	*	*	*
24 O'Neill	4,219	2.6	14,708	-0.3	3.2
Valentine	2,568	9.0	*	*	*
25 Hartington	1,644	-7.9	8,919	1.3	2.4
26 Broken Bow	3,727	15.2	11,957	2.1	0.0

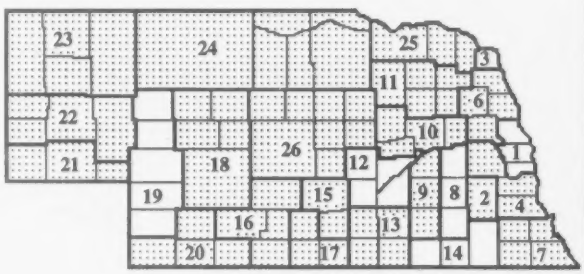
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
*Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure I
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars. Solid line indicates current dollars; broken line indicates constant dollars

Figure II
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

The U.S. Postal Service in 1990

Merlin W. Erickson
UNL Bureau of Business Research

The U.S. Postal Service handled 166.3 billion pieces of mail during fiscal year 1990. This was an increase of 2.9 percent over the previous 12 month period ending on September 3, 1989 according to the fiscal year 1990 annual report of the Postmaster General.

The total weight of the fiscal year 1990 mail volume was estimated at more than 18.8 billion pounds. The volume of mail is estimated to be 666 pieces, weighing approximately 75 pounds on an annual per capita basis. Based on these annual per capita measures, a four-person household would receive over 2,660 pieces of mail weighing a total of about 300 pounds.

Total mail revenue in fiscal year 1990 was almost $37.9 billion. The following chart shows the volume, weight, and revenue by class of mail in fiscal year 1990. The measures are shown as a percentage of the total.

Table 1
Volume and Weight of U.S. Mail
Fiscal Year 1990

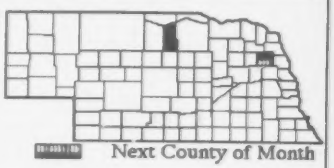
Class of Mail	Pieces of Mail	Weight	Revenue
	----------Percent of Total----------		
First-Class	53.7	17.7	63.4
Second-Class	6.4	22.5	4.0
Third-Class	38.3	40.6	21.3
Fourth-Class	0.4	11.2	2.4
Other*	1.2	8.0	8.9
Total	100.0	100.0	100.0

*Includes Priority and Express Mail, Mailgrams, and International Surface and Air Mail

County of the Month

Rock

Bassett—County Seat



Next County of Month

License plate prefix number: 81
Size of county: 1,017 square miles, ranks 15th in the state
Population: 2,019 in 1990, a change of -15.3 percent from 1980
Median age: 36.8 years in Rock County, 33.0 years in Nebraska in 1990
Per capita personal income: $15,162 in 1989, ranks 37th in the state
Net taxable retail sales ($000): $11,988 in 1990, a change of +6.6 percent from 1989; $2,559 during January-March 1991, a change of -1.6 percent from the same period one year ago
Number of business and service establishments: 55 in 1988; 60 percent had less than five employees
Unemployment rate: 2.0 percent in Rock County, 2.1 percent in Nebraska for 1990
Nonfarm employment (1990):

	State	Rock County
Wage and salary workers	731,108	576
	(percent of total)	
Manufacturing	13.5%	5.4%
Construction and Mining	3.8	2.6
TCU	6.3	2.4
Retail Trade	18.4	13.3
Wholesale Trade	7.2	26.4
FIRE	6.6	3.1
Services	24.4	14.7
Government	19.7	32.1
Total	100.0%	100.0%

Agriculture:
Number of farms: 313 in 1987, 309 in 1982
Average farm size: 1,862 acres in 1987
Market value of farm products sold: $36.2 million in 1987 ($115,780 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

Business in Nebraska

PREPARED BY BUREAU OF BUSINESS RESEARCH
Association for University Business & Economic Research

Business in Nebraska is issued as a public service and mailed free of charge upon request to 200 CBA, University of Nebraska-Lincoln, Lincoln, NE 68588-0406. Copyright 1991 by Bureau of Business Research, University of Nebraska-Lincoln. ISSN 0007-683X.

July 1991, Volume 46 No. 562

University of Nebraska-Lincoln—Jack Gonbel, *Interim Chancellor*
College of Business Administration—Gary Schwendiman, *Dean*

Bureau of Business Research
John S. Austin, *Research Associate*
Carol Boyd, *Staff Secretary*
David DeFruiter, *Information Systems Coordinator*
Merlin W. Erickson, *Research Associate*
F. Charles Lamphear, *Director*
Jan Laney, *Composing Technician*
Lisa Valladao, *Staff Secretary*
Margo Young, *Communications Associate*

The University of Nebraska-Lincoln does not discriminate in its academic, admission, or employment programs and abides by all federal regulations pertaining to same.

Nonprofit Org.
U.S. Postage
PAID
Lincoln, Nebraska
Permit No. 46

#A112
CONGRESSIONAL INFO SERVICE
SRI
4520 EAST/WEST HIGHWAY
BETHESDA, MD 20814